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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 002172

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SUBJECT: BOLIVAR: POLITICS AND ECONOMICS IN THE LAND OF
HEAVY INDUSTRY

REF: CARACAS 1549

CLASSIFIED BY: ECONOMIC COUNSELOR RICHARD M. SANDERS FOR REASONS 1.5 B
AND D

[1](#)1. SUMMARY: (SBU) THE STATE OF BOLIVAR, BY FAR THE LARGEST IN VENEZUELA IN AREA, IS A REGION WITH ECONOMIC IMPORTANCE MUCH HIGHER THAN ITS RELATIVELY LOW POPULATION WOULD INDICATE. (BOLIVAR PRODUCES 100% OF VENEZUELAN ALUMINUM AND GOLD, 90% OF ITS STEEL, AND ABOUT TWO-THIRDS OF ITS ELECTRICITY.) DURING ECONOFF'S VISIT TO THE STATE, CONVERSATIONS WITH THE PRO-OPPOSITION GOVERNOR, HIS PRO-CHAVEZ CHALLENGER, THE HEAD OF GOV-OWNED INDUSTRIAL COMBINE CORPORACION VENEZOLANA DE GUAYANA (CVG), THE CHIEF FINANCIAL OFFICER OF PRIVATIZED FIRM SIDOR (VENEZUELA'S MAJOR STEEL PRODUCER), AND REPRESENTATIVES OF THE PRIVATE SECTOR PAINTED A PICTURE IN WHICH BIG INDUSTRY DOES RELATIVELY WELL WHILE THE REST OF THE ECONOMY STRUGGLES, AND IN WHICH PRO- AND ANTI-CHAVEZ POLITICAL FORCES BOTH CLAIM THE EDGE. CVG'S DOMINANCE MAY TIP THE BALANCE IN FAVOR OF CHAVEZ. END SUMMARY.

POLITICS IN THE PROVINCE

[1](#)2. (C) ECONOFF MET JUNE 29 WITH GOVERNOR ANTONIO ROJAS SUAREZ, ELECTED IN 2000 AS A PRO-GOV CANDIDATE, AND WHO OFFICIALLY SPLIT FROM CHAVEZ'S FIFTH REPUBLIC MOVEMENT (MVR) LAST YEAR. ROJAS HIGHLIGHTED SOME OF THE ACHIEVEMENTS OF HIS ADMINISTRATION, BUT LAMENTED THE LACK OF FUNDS FROM THE CENTRAL GOVERNMENT. HE NOTED THIS IS A PROBLEM WHICH AFFECTS ALL STATES, NOT ONLY THOSE WITH GOVERNORS WHO OPPOSE CHAVEZ. THE GOV IS CONSTITUTIONALLY OBLIGATED TO PROVIDE A CERTAIN AMOUNT OF ITS GROSS INCOME TO STATE GOVERNMENTS, BUT ROJAS SAID THE LAST PAYMENT WAS OVER THREE MONTHS AGO, AND DISBURSEMENTS THEN WERE LESS THAN THEY SHOULD HAVE BEEN. IN ADDITION, HIS STATE HAS NOT RECEIVED A SINGLE BOLIVAR IN 3 FULL YEARS FROM THE DECENTRALIZATION INVESTMENT FUND (FIDES, AN ENTITY CREATED IN 1993 TO ASSIST IN THE TRANSFER OF FUNDS TO THE STATES, AND LAUDED BY THE MINISTRY OF FINANCE AS RECENTLY AS IN ITS JUNE NEWSLETTER).

[1](#)3. (C) ECONOFF ALSO MET JUNE 30 WITH FRANCISCO RANGEL GOMEZ, THE HEAD OF COMANDO MAISANTA (PRO-CHAVEZ RECALL CAMPAIGN STRUCTURE), WHO ALSO RECENTLY RESIGNED AFTER FOUR YEARS AS PRESIDENT OF STATE INDUSTRIAL COMBINE CVG TO RUN FOR GOVERNOR OF BOLIVAR LATER THIS YEAR. HE COMPLAINED THAT ROJAS HAD DONE NOTHING IN HIS TERM, BUT THEN CONCEDED THAT THE BRAND NEW AIRPORT TERMINAL WAS IMPRESSIVE. HE PRAISED THE WORKING OF THE VARIOUS GOV "MISSIONS" IN BOLIVAR, STATING THAT THEY WERE NOT RUN THROUGH EXISTING GOV INSTITUTIONS BECAUSE THOSE AGENCIES WERE "DISASTERS." HE ADDED THAT CHAVEZ'S FIVE YEARS IN OFFICE WOULD NOT HAVE BEEN ENOUGH TIME TO REFORM THOSE AGENCIES, GIVEN THE "OIL STRIKE" AND THE "COUP." WHEN ECONOFF POINTED OUT THAT THEY COULD NOT HAVE PLANNED FOR THOSE EVENTS, HE SAID "FIVE YEARS WOULD NOT HAVE BEEN ENOUGH ANYWAY."

[1](#)4. (C) REFERENDUM. BOTH ROJAS AND RANGEL EXPRESSED OPTIMISM ABOUT THE PRESIDENTIAL REFERENDUM, LOCALLY AND NATIONALLY. ROJAS THOUGHT ONLY A SLIM MAJORITY WOULD VOTE AGAINST CHAVEZ LOCALLY, GIVEN THAT IT IS ONE OF THE MOST PRO-CHAVEZ STATES, WHILE RANGEL PREDICTED A LANDSLIDE FOR CHAVEZ BY A THREE-TO-ONE MARGIN. RANGEL DISMISSED ALL CHANCES OF AN OPPOSITION WIN. HE ASSERTED THAT THE FIRMAZO/REPARO PETITION PROCESS WAS "THE BEST POLL OF ALL" AND IT HAD PROVED THAT THE OPPOSITION WOULD GET LESS THAN 2.5 MILLION VOTES, ESPECIALLY GIVEN THAT THE FINAL NUMBER OF APPROVED SIGNATURES INCLUDED "THE DEAD AND THE FRAUDS." HE SAID THAT CHAVEZ TOLD HIM AT THE TIME OF THE REPAROS THAT HE WOULD GO TO REFERENDUM AS LONG AS IT WERE CLOSE, EVEN IF THERE WEREN'T QUITE ENOUGH SIGNATURES TO TRIGGER IT. ROJAS AVOIDED NUMERICAL PREDICTIONS, BUT THOUGHT THE OPPOSITION WOULD OVERCOME THE MANY OBSTACLES THAT THE GOV IS SURE TO PLACE BEFORE THEM, SUCH AS CVG DIVERTING MONEY FROM INVESTMENT IN ORDER TO FUND THE CAMPAIGN LOCALLY.

[1](#)5. (C) ELECTIONS. ROJAS WILL RUN FOR RE-ELECTION, THIS TIME REPRESENTING THE OPPOSITION. HE STATED THAT HE WAS CLOSE TO

ACHIEVING AGREEMENT FROM ALL PARTIES TO BE THE CONSENSUS

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UT. INDEED, HE EXPRESSED CONCERN THAT THE COPEI CANDIDATE MAY HAVE REACHED AN AGREEMENT WITH THE MVR TO RUN AND TIP THE BALANCE TOWARD RANGEL BY SIPHONING VOTES FROM ROJAS. ROJAS CALLED RANGEL A SERIOUS CANDIDATE, GIVEN HIS EXPERIENCE (HE WAS A GENERAL BEFORE RUNNING CVG) AND POSITIVE RESULTS AT CVG. RANGEL REFUSED TO CONSIDER DEFEAT A POSSIBILITY, AND DISMISSED ROJAS AS A "NOBODY." HE SAID THAT THE NEW COMANDO MAISANTA WAS "TOTALLY DIFFERENT" FROM COMANDO AYACUCHO AND PREVIOUS MVR CAMPAIGN ORGANIZATIONS, BUT LATER MENTIONED THAT IT WAS STAFFED BY VIRTUALLY THE SAME PEOPLE WHO RAN THEM.

16. (C) RANGEL MADE THREE OTHER COMMENTS OF INTEREST. THE FIRST, WHEN ECONOFF MENTIONED THE IMPORTANCE OF MAINTAINING OPEN DIALOGUE WITH THE DIFFERENT LEVELS OF GOVERNMENT, WAS THAT HE WAS COMPLETELY CERTAIN THAT CHAVEZ WOULD ACCEPT MORE OPEN COMMUNICATION WITH THE USG AS SOON AS HE RECEIVED "ONE FRIENDLY SIGNAL" FROM SOMEONE HIGHER UP IN THE USG, RATHER THAN STATEMENTS SUCH AS THOSE OF A/S NORIEGA. THE SECOND WAS THAT SENATOR KERRY'S MOST RECENT STATEMENT ON VENEZUELA WAS "WELL RECEIVED" BY THE GOV. (RANGEL INTERPRETED IT AS SUPPORT FOR THE CNE AND ACCEPTANCE IN ADVANCE OF THE RECALL RESULT.) THE THIRD WAS THAT THERE WAS COMPLETE FREEDOM OF EXPRESSION IN VENEZUELA. WHEN ECONOFF MENTIONED A JOURNALIST (PATRICIA POLEO) WHO IS FACING CHARGES, RANGEL SAID "BUT SHE'S FREE."

BIG INDUSTRIES BOOMING, OPTIMISTIC

17. (SBU) MIGUEL DELFINO, CFO OF SIDOR (ORINOCO IRON AND STEEL, A FORMER CVG COMPONENT WHICH WAS 60% PRIVATIZED IN 1997), PRESENTED A VERY POSITIVE PICTURE. EFFICIENCY NEARLY DOUBLED FROM 1999 TO 2002, LEADING TO CURRENT PRODUCTION BEING AT NEAR-RECORD HIGHS. DOMESTIC SALES IN THE FIRST QUARTER OF 2004 WERE UP 67% FROM THE SAME PERIOD IN 2002 (PRE-GENERAL STRIKE), THOUGH DELFINO ALLOWED THAT AN UNKNOWN PART OF THESE SALES WERE ENDING UP IN COLOMBIA. (SINCE ALL SIDOR SALES ARE ALL BASED ON DOLLAR PRICES AT THE OFFICIAL, FIXED RATE OF EXCHANGE, A BLACK MARKET SALE FOR EXPORT WOULD BE PROFITABLE FOR LOCALS, GIVEN THE HIGHER PARALLEL RATE.) THE ONLY REASON THAT PRODUCTION IS NOT CURRENTLY AT AN ALL-TIME RECORD, ACCORDING TO DELFINO, WAS THE 2004 STEEL STRIKE (SEE REF), WHICH WAS ONLY RESOLVED WITH GOVERNMENT INTERVENTION. (NOTE: TO END THE STRIKE, THE GOV, 40% OWNER OF SIDOR, AGREED TO TRANSFER 20% OF OWNERSHIP TO SIDOR EMPLOYEES. THIS WAS A STIPULATION OF THE 1997 PRIVATIZATION AGREEMENT, BUT THE GOV HAD NEVER MOVED ON IT UNTIL THE STRIKE STOPPED CRITICAL STEEL DELIVERIES TO PDVSA. END NOTE)

18. (C) RAFAEL SANCHEZ MARQUEZ, THE GOV-APPOINTED PRESIDENT OF CVG, THE GOV-OWNED CONSORTIUM OF BASIC INDUSTRIES (WHICH DOMINATE BOLIVAR STATE AND INCLUDE HYDROELECTRICITY, GOLD, ALUMINUM AND LUMBER), WAS SIMILARLY OPTIMISTIC. HE CITED THE TURN-AROUND OVER THE LAST FOUR YEARS FROM PREVIOUS MISMANAGEMENT (PRIOR TO RANGEL'S TENURE, ONLY ONE OF CVG'S BUSINESSES, THE ELECTRIC PRODUCTION, TURNED A PROFIT; NOW ONLY ONE IS OPERATING AT A LOSS) AND LISTED NUMEROUS NEW PROJECTS THAT WERE UNDERWAY OR ABOUT TO BEGIN. HE WAS ALSO PROUD OF CVG'S INVOLVEMENT WITH THE GOV MISSIONS (ESPECIALLY THE NUMBER OF CUBAN DOCTORS - ONE THOUSAND - WHO ARE IN BOLIVAR WITH BARRIO ADENTRO), THOUGH SAID THAT CVG PARTICIPATION WAS LIMITED TO LOGISTICS, TRANSPORTATION, AND TECHNICAL ASSISTANCE RATHER THAN FUNDS.

PRIVATE SECTOR DISCOURAGED AT BEST

19. (SBU) PRIVATE SECTOR REPRESENTATIVES, IN A ROUND-TABLE MEETING, EXPRESSED FRUSTRATION, POSSIBLY BORDERING ON DESPERATION. BOLIVAR SEEMS TO HAVE FELT THE ECONOMIC DOWNTURN MORE THAN MUCH OF VENEZUELA, AT LEAST IN AREAS NOT DEPENDENT ON THE BASIC INDUSTRIES. SOME PONDERED THAT THIS MIGHT BE BECAUSE OF ITS DISTANCE FROM THE CAPITAL. SEVERAL EXPRESSED INTEREST IN HAVING U.S. REPRESENTATIVES FROM VARIOUS INDUSTRIES (TOURISM, MANUFACTURING, AGRICULTURE, SCIENTIFIC RESEARCH) COME TO BOLIVAR FOR PROFESSIONAL

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THE FACT THAT, DESPITE PROXIMITY, MORE TOURISTS CAME TO BOLIVAR FROM AT LEAST FOUR EUROPEAN COUNTRIES THAN FROM THE U.S.

COMMENT

110. (C) WHILE BOLIVAR HAS ONLY FIVE PERCENT OF THE VENEZUELAN POPULATION, IT IS IMPORTANT AS AN ENGINE OF ECONOMIC GROWTH

FOR VENEZUELA. THE STATE ECONOMY OVERALL SEEMS TO BE DOING FAIRLY WELL, CONSIDERING THE RELATIVE IMPORTANCE OF THE MAJOR INDUSTRIES (CVG AND PRIVATIZED), BUT THE SMALLER BUSINESSES ARE CLEARLY FEELING THE EFFECTS OF THE NATIONAL ECONOMIC DOWNTURN, AND THE CONCOMITANT LACK OF FOREIGN INTEREST IN NEW INVESTMENT. WHILE CVG AND SIDOR CAN EXPECT TO CONTINUE TO DO WELL, IT IS UNLIKELY THAT THE REST OF THE ECONOMY WILL APPROVE WITHOUT SIGNIFICANT POLICY CHANGE BY THE CENTRAL GOVERNMENT, WHETHER IN ITS MACROECONOMIC POLICIES OR WILLINGNESS TO DISTRIBUTE FUNDS TO PRIME THE PUMP AT THE STATE GOVERNMENT LEVEL. POLITICALLY, THE SHEER DOMINANCE OF THE STATE INDUSTRIAL COMPLEX GIVES PRO-CHAVEZ FORCES AN EDGE IN BOTH THE REFERENDUM AND GUBERNATORIAL RACE THAT MAY BE HARD FOR THE OPPOSITION TO OVERCOME.

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